

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 TAR-01 L-03

COME-00 H-02 CIAE-00 INR-07 NSAE-00 LAB-04 SIL-01

FRB-03 PRS-01 USIA-06 INT-05 /097 W

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R 131932Z JUN 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 6707

INFO USMISSION GENEVA

AMCONSUL MONTREAL UNN

AMCONSUL TORONTO UNN

C O N F I D E N T I A L SECTION 1 OF 2 OTTAWA 2218

EO 11652 GDS

TAGS ETRD EIND CA

SUBJ REMISSION OF CUSTOMS DUTY ON FOREIGN

AUTOMOBILES WITH CANADIANCOMPONENTS

REFS A) STATE 128197 (NOTAL) B) OTTAWA A-337, MAY 23, 1975

1. SUMMARY. IN JUNE 11 DISCUSSION WITH INDUSTRY, TRADE AND COMMERCE AUTOMOTIVE OFFICIALS, EMBOFF RECEIVED GENERAL BRIEFING ON CANADIAN AUTO PARTS INDUSTRY AND INFORMATION ON PARTS DUTY AND TAX REMISSION ORDER RESPONSIVE TO QUESTIONS CONTAINED REFTEL. CANADIAN OFFICIALS TOOK OCCASION TO EXPRESS SOME CONCERN OVER DENT RESOLUTION (H.RES. 431) CALLING FOR AUTOMOTIVE ANTI-DUMPING INVESTIGATION AND POSSIBLE EFFECT ON CANADA OF PROSPECTIVE UAW ACTION UNDER TRADE ACT TO BENEFIT U.S. CHRYSLER UNEMPLOYED AS RESULT OF IMPORTS FROM CANADA. END SUMMARY.

2. PER REFTEL INSTRUCTIONS, EMBOFF MET INFORMALLY ON JUNE 11 WITH MR. D.W. MCEWAN (CHIEF, MOTOR VEHICLES DIVISION, INDUSTRY, TRADE AND COMMERCE DEPARTMENT) AND
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MR. A.W. WALTERS OF THE AUTOMOTIVE TRADE POLICY SECTION.

IN LEADING OFF, MCEWAN SAID THAT THERE ARE THREE CATEGORIES OF CANADIAN AUTO PARTS MANUFACTURERS:

- (1) THE BIG FOUR AUTO COMPANIES WHICH ARE MANUFACTURING AN INCREASING VOLUME OF PARTS AND EQUIPMENT FOR THEIR OWN USE AND FOR EXPORT TO THEIR U.S. PARENT COMPANIES;
- (2) "INDEPENDENT" MANUFACTURERS OF ORIGINAL AUTO EQUIPMENT AND PARTS (APPROXIMATELY 85 PERCENT U.S. OWNED);
- (3) MANUFACTURERS OF ACCESSORIES AND "AFTER-MARKET" PARTS AND EQUIPMENT ("LARGELY" U.S.-OWNED).

3. MCEWAN STATED THAT THE LATTER TWO CATEGORIES OF MANUFACTURERS EMPLOY ROUGHLY 50,000 WORKERS. APPROXIMATELY 10,000 OR 20 PERCENT OF THESE WORKERS ARE CURRENTLY UNEMPLOYED, MOST OF THEM IN THE ORIGINAL EQUIPMENT MANUFACTURING CATEGORY (PARA. 2(2) ABOVE). IT IS PRIMARILY FOR THIS SEGMENT OF THE INDUSTRY, HE SAID, THAT THE GOC HAD PROMULGATED THE DUTY AND SALES TAX REMISSION SCHEME. HE SAID THAT IT IS A "MINIMAL" RESPONSE BY THE GOVERNMENT TO INSISTENT INDUSTRY REQUESTS AND THERE IS NO REPEAT NO WAY OF FORECASTING OR JUDGING ANY TRADE AND PRICE EFFECTS OF THE REMISSIONS. HE SAID IT IS NOW UP TO THE INDUSTRY TO SEE WHAT IT CAN DO TO TAKE ADVANTAGE OF THE REMISSION ORDER AND TO MAKE ITSELF COMPETITIVE IN FOREIGN MARKETS. AT MOST, MCEWAN CLAIMED, THE DUTY AND SALES TAX REMISSIONS WILL BARELY BRING HIGH CANADIAN PARTS PRICES INTO COMPETITION WITH FOREIGN PARTS, WITH ONE OR TWO EXCEPTIONS, SUCH AS SHOCK ABSORBERS, WHERE CANADA IS A RELATIVELY LOW-COST PRODUCER.

4. MCEWAN ALSO TOOK THE OCCASION TO GIVE A THUMBNAIL SKETCH OF THE ECONOMIC CONDITION OF THE ENTIRE CANADIAN AUTOMOTIVE INDUSTRY. WITH REGARD TO THE AUTO MANUFACTURERS, HE NOTED THAT DEMAND IN CANADA HAS HELD UP REMARKABLY WELL IN BOTH THE LAST AND PRESENT MODEL YEARS AND WOULD REALLY BE IN A BOOM CONDITION IF U.S. DEMAND WERE NORMAL. TO THE EXTENT THAT CANADIAN ECONOMIC

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CONDITIONS ARE INHIBITING PURCHASES OF NEW AUTOS, I.E., MANY PEOPLE ARE DEFERRING PURCHASES AND THUS CAR AGES ARE LENGTHENING, THE "AFTER-MARKET" INDUSTRY IS ALSO DOING EXTREMELY WELL AS INDICATED (PERVERSELY) BY A \$700 MILLION TRADE DEFICIT BY THAT SECTOR IN 1974. THE ONLY SECTOR, HE REPEATED, THAT SHOWED ANY WEAKNESS WAS THE INDEPENDENT ORIGINAL PARTS MAKERS AND THEIR CONDITION IS GROSSLY EXAGGERATED BY REFERENCES TO THE OVERALL 1974

TRADE DEFICIT IN PARTS AND EQUIPMENT OF \$2.5 BILLION.
ON THIS POINT, MCEWAN REGRETTE THE EMPHASIS PLACED
ON INDUSTRIAL SECTOR TRADE DEFICITS AS INDICATORS OF
INDUSTRY ECONOMIC HEALTH AND VIABILITY. MCEWAN STATED
THAT, DESPITE THE HIGH UNEMPLOYMENT, ON A SHIPMENTS
BASIS, AND DISCOUNTING THE INFLATION FACTOR, PARTS
FOR THE 1975 MODEL YEAR TO DATE WERE OFF ONLY
MARGINALLY FROM THE 1974 MODEL YEAR, ALTHOUGH ROUGH
STATISTICS FOR JANUARY AND FEBRUARY OF THIS CALENDAR
YEAR INDICATED A RATHER SHARP DOWNTURN.

5. ON THE MATTER OF THE SPECIFIC QUESTIONS CONTAINED
IN REFTTEL, MCEWAN CONFIRMED THAT THE OTTAWA CITIZEN
REPORT OF MAY 20 WAS COMPLETELY ERRONEOUS IN
IMPLYING THAT THERE COULD BE A 100 PERCENT DUTY REMISSION
ON A \$3,000 AUTO, FOR EXAMPLE, IF ITS FOREIGN MANU-
FACTURER HAD PURCHASED CANADIAN PARTS VALUED AT
\$3,000. THE ABSOLUTE AMOUNT OF DUTY REMISSION DEPENDS
SOLELY ON THE VALUE OF RETURNED CANADIAN COMPONENTS
AS ORIGINAL EQUIPMENT OR OF COMPONENTS SIMILAR TO AND
IN LIEU OF CANADIAN COMPONENTS PURCHASED BY THE
FOREIGN MANUFACTURER. IN THE LATTER INSTANCE,
COMPONENTS SIMILAR TO AND IN LIEU OF CANADIAN
COMPONENTS WILL BE VALUED FOR DUTY REMISSION PURPOSES
AT "FAIR MARKET VALUE" AS DETERMINED BY THE DEPMIN
OF NATIONAL REVENUE FOR CUSTOMS AND EXCISE. FURTHER-
MORE, THE NUMBER OF AUTOS ELIGIBLE FOR SUCH REMISSIONS
MAY NOT REPEAT NOT EXCEED THE NUMBER THAT COULD HAVE
HAD INSTALLED ON THEM THE CANADIAN COMPONENTS EXPORTED
TO THAT PARTICULAR FOREIGN MANUFACTURER.

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INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 TAR-01 L-03

COME-00 H-02 CIAE-00 INR-07 NSAE-00 LAB-04 SIL-01

FRB-03 PRS-01 USIA-06 INT-05 /097 W

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R 131932Z JUN 75
FM AMEMBASSY OTTAWA
TO SECSTATE WASHDC 6708
INFO USMISSION GENEVA
AMCONSUL MONTREAL UNN
AMCONSUL TORONTO UNN

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6. U.S. AUTOMOBILES NOT REPEAT NOT COVERED BY DUTY-FREE TREATMENT UNDER THE AUTO AGREEMENT COULD ALSO BENEFIT FROM THESE REMISSIONS, PROVIDED THAT THEY ARE IMPORTED INTO CANADA BY A "DESIGNATED IMPORTER" (AS DEFINED BY THE ORDER-IN-COUNCIL). THE REMISSION ORDER WOULD NOT REPEAT NOT APPLY BY DEFINITION TO AUTOS IMPORTED BY INDIVIDUALS AND AS A PRACTICAL MATTER NEITHER MCEWAN NOR WALTERS (NOT THE EMBASSY FOR THAT MATTER) CAN THINK OF WHAT U.S. AUTOS MIGHT THEREBY BENEFIT FROM THE ORDER.

7. WITH REGARD TO PARA, 2 OF REFTTEL, THE SALES TAX REMISSION DOES REFER TO THE DECREASE IN SALES TAX WHICH OCCURS BECAUSE THE BASIS FOR ASSESSMENT OF SALES TAX (DUTY-PAID VALUE) IS REDUCED BY THE TARIFF REMISSION.

8. ON THE MATTER OF DEFINITION OF "REMISSION", GOC AUTHORITIES ARE NOT YET SURE HOW THE MECHANICS WILL WORK IN PRACTICE BECAUSE OF THE FAIRLY COMPLICATED BOOKKEEPING" WHICH WILL BE REQUIRED TO MATCH PARTS
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EXPORTS TO A PARTICULAR FOREIGN MANUFACTURER WITH AUTO IMPORTS FROM THE SAME MANUFACTURER.THERE WILL OBVIOUSLY BE A TIME LAG AND WITHOUT A HISTORICAL BASIS FOR THE NEW TRADE WHICH THIS ORDER IS INTENDED TO DEVELOP, THERE WILL PERFORCE HAVE TO BE A SQUARING OF ACCOUNTS MONTHLY, QUARTERLY, OR OVER SOME SIMILAR PERIOD OF TIME.

9. EMBOFF NOTED THAT CANADIAN ACTION DIFFERS FROM U.S. TARIFF ITEM 807 IN TERMS OF LIMITATION TO PARTS CLEARLY IDENTIFIABLE AND RETURNED. MCEWAN RESPONDED THAT WHILE THIS MAY BE TECHNICALLY TRUE, IT IS NOT REPEAT NOT SO IN PRACTICE. HE STATED THAT THE CANADIAN ORDER WAS SPECIFICALLY DRAFTED IN RECOGNITION THAT MANY RETURNED PARTS, FOR EXAMPLE BALL BEARINGS, CANNOT IN FACT BE CLEARLY IDENTIFIABLE WITHOUT DISASSEMBLING MAJOR PORTIONS OF A FINISHED AUTOMOBILE AND THAT U.S. CUSTOMS AUTHORITIES IN ADMINISTERING ITEM 807 HAD TO

"WINK" AT THE STRICT INTERPRETATION OF "CLEARLY IDENTIFIABLE" AND INSTEAD RELIED UPON WRITTEN DECLARATIONS, CERTIFICATES AND OTHER "PAPER" WHICH PROBABLY ALL TOO OFTEN "STRETCHED" THE FACTS.

10. EMBOFF RAISED THE POSSIBLE DISCRIMINATORY ASPECTS OF THE ORDER. MCEWAN BRUSHED THIS ASIDE BY NOTING THAT THE BENEFITS, IF THERE WERE ANY IN FACT, WERE OPEN TO ANYONE WHO WISHED TO TAKE ADVANTAGE OF THEM AND FURTHERMORE, HE ADDED, THERE WAS LITTLE LIKELIHOOD THAT VERY MUCH TRADE WAS GOING TO DEVELOP BECAUSE CANADIAN PARTS WERE STILL GOING TO REMAIN HIGH-PRICED. HE THOUGHT IT WOULD TAKE THREE OR FOUR YEARS OF EXPERIENCE TO SEE WHAT MIGHT DEVELOP, CLEARLY IMPLYING THAT THE ORDER CAN BE EXPECTED TO BE EXTENDED BEYOND ITS PRESENTLY STATED JULY 31, 1976 EXPIRATION DATE.

11. IN CONCLUDING THE CONVERSATION, EMBOFF NOTED THE POSSIBLE EFFECT OF SUCH ACTION ON U.S. EFFORTS TO RESIST PRESSURES FOR RESTRICTIONS ON AUTO IMPORTS. AT THAT POINT MCEWAN RAISED THE MATTER OF HOUSE RESOLUTION 431 (CONGRESSMAN DENT AND OTHERS), DATED CONFIDENTIAL

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APRIL 30, WHICH INTER ALIA CALLS FOR AN INVESTIGATION INTO POSSIBLE ANTI-DUMPING VIOLATIONS BY THOSE MANUFACTURERS WHOSE VEHICLES ARE PRODUCED IN PART OR IN WHOLE OUTSIDE OF THE U.S. MCEWAN STATED THAT THIS RESOLUTION WAS WORRISOME, PARTICULARLY IN THE CASE OF THOSE AUTOS SUCH AS GM'S MONZA, STARFIRE AND SKYHAWK AND CHRYSLER'S CORDOBA AND CHARGER SE WHICH ARE SOLELY MANUFACTURED IN CANADA AND WHICH SELL IN CANADA (EXCEPT FOR THE STARFIRE WHICH IS NOT SOLD DOMESTICALLY) AT HIGHER PRICES THAN IN THE U.S. MCEWAN ALSO EXPRESSED CONCERN ABOUT POSSIBLE EFFECTS ON CHRYSLER OPERATIONS IN CANADA OF THE REPORT (WALL STREET JOURNAL OF MAY 16) THAT THE UAW IS PREPARING TO FILE A BENEFITS CLAIM UNDER THE 1974 TRADE ACT ON THE BASIS THAT CHRYSLER WORKERS ARE SUFFERING UNEMPLOYMENT DUE TO IMPORTS OF CHRYSLER-MADE AUTOS FROM CANADA.

12. COMMENT: EMBASSY DOES NOT CONSIDER IT APPROPRIATE TO REFER IN THIS CONTEXT TO REDUCTION IN MARGIN OF PREFERENCE (PARA. 6 REFTTEL) SINCE AUTO AGREEMENT WAS NOT NEGOTIATED FOR PURPOSE OF OBTAINING MARGIN OF PREFERENCE AND USG HAS NO RIGHT TO EXISTING MARGIN (NOR CANADA ANY OBLIGATION TO MAINTAIN IT). WE ASSUME DEPARTMENT WILL BE ANALYZING GATT LEGAL ASPECTS OF CANADIAN ACTION BUT BELIEVE TWO OF POSSIBLE QUESTIONS

RELATE TO (A) WHETHER DUTY REMISSION IS EXAMPLE OF
CONDITIONAL MFN AND THUS VIOLATION OF ARTICLE I AND
(B) WHETHER IT CAN BE CHALLENGED AS SUBSIDY IN VIOLATION
OF ARTICLE XVI. REGARDING (A), SIMILAR QUESTION MIGHT
HAVE BEEN RAISED IN MID-SIXTIES ABOUT CANADA'S
GRANTING OF DUTY-FREE TREATMENT ON AUTOS TO MANUFACTURERS
WHO ESTABLISH PLANTS IN CANADA BUT GATT WORKING PARTY
REPORT ON U.S./CANADA AUTO AGREEMENT (BISD, 13TH SUPPL.)
DOES NOT INDICATE THAT MATTER WAS DEBATED IN THESE
TERMS; THERE APPEARS TO HAVE BEEN NO DISSENT FROM
CANADIAN VIEW THAT ANYONE COULD TAKE ADVANTAGE OF
SYSTEM AND THUS IT NON-DISCRIMINATORY.

13. ACTION REQUESTED: EMBASSY WOULD APPRECIATE ANY
AVAILABLE AND RECENT INFORMATION ON THE DENT RESOLUTION
AND PROSPECTIVE UAW ACTION.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CUSTOMS DUTIES, MEETINGS, AUTOMOBILES, TRADE CONTROLS, ANTIDUMPING LAW (TRADE)
Control Number: n/a
Copy: SINGLE
Draft Date: 13 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OTTAWA02218
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
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Errors: N/A
Film Number: D750208-0428
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750652/aaaabvmj.tel
Line Count: 300
Locator: TEXT ON-LINE, ON MICROFILM
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Original Classification: CONFIDENTIAL
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Review Authority: greeneet
Review Comment: n/a
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Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006